Change in ☑ Estimates ☑ Rating ☑ Target

Q3 FY16

IIFL
India Private Clients

DCB Bank

Strong performance, valuation comforting

Accumulate

Sector: Financials
Sector View: Positive

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CMP: Rs79 **1-yr Target: Rs88** **Upside: 11.5%**

- Strong NII growth backed by continued traction in advances book
- Advances growth continues to be healthy; share of corporate banking has reduced
- The revised branch addition strategy will spread out costs and put less pressure on C/I ratio
- Asset quality remains stable
- NIMs rise sharply in Q3 FY16; expect NIMs to correct over the medium term
- Valuation captures the impact of new strategy; upgrade rating to Accumulate

Stock Data

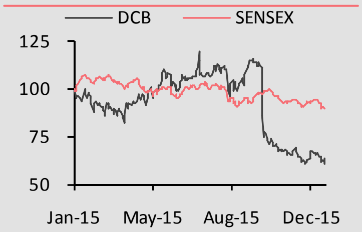
Sensex:	24,854
52 Week h/l (Rs):	151/74
Market cap (Rscr) :	2,234
6m Avg t/o (Rscr):	23
Bloomberg code:	DCBB IN
BSE code:	532772
NSE code:	DCBBANK
FV (Rs):	10
Div yield (%):	0

Prices as on Jan 13, 2016

Shareholding Pattern

	Mar-15	June-15	Sep-15
Promoters	16.4	16.3	16.3
FII+DII	38.2	39.2	41.1
Others	45.5	44.5	42.6

Share Price Trend



Result table

(Rs cr)	Q3 FY16	Q2 FY16	% qoq	Q3 FY15	% yoy
Total Interest Income	430	416	3.3	356	20.7
Interest expended	(269)	(266)	1.2	(235)	14.6
Net Interest Income	**160**	**150**	**7.0**	**121**	**32.5**
Other income	47	49	(3.1)	48	(1.7)
Total Income	**208**	**199**	**4.5**	**169**	**22.8**
Operating expenses	(123)	(121)	2.4	(101)	22.2
Provisions	(21)	(22)	(3.3)	(18)	16.4
PBT	63	56	12.2	50	26.2
Tax	(22)	(20)	13.3	(7)	215.7
Reported PAT	**41**	**37**	**11.6**	**43**	**(4.5)**
EPS	**5.8**	**5.2**	**11.4**	**6.1**	**(5.3)**
Ratios	**Q3 FY16**	**Q2 FY16**	**chg qoq**	**Q3 FY15**	**chg yoy**
NIM (%)	**4.0**	**3.8**	**0.2**	**3.7**	**0.3**
Yield on advances (%)	12.3	12.5	(0.2)	12.5	(0.2)
Cost of Funds (%)	7.4	7.6	(0.2)	7.8	(0.3)
CASA (%)	**23.0**	**24.1**	**(1.1)**	**23.8**	**(0.8)**
C/D (%)	**83.3**	**82.5**	**0.9**	**80.1**	**3.2**
Non-interest income (%)	**29.4**	**32.5**	**(3.1)**	**39.6**	**(10.2)**
Cost to Income (%)	**59.4**	**60.7**	**(1.3)**	**59.7**	**(0.3)**
Provisions/Avg.Adv (%)	0.7	0.8	(0.1)	0.8	(0.1)
BV (Rs)	56.0	54.6	2.6	50.7	5.3
RoE (%)	9.7	8.9	0.8	11.8	(2.1)
RoA (%)	1.0	0.9	0.1	1.2	(0.2)
CAR (%)	**13.0**	**13.6**	**(0.6)**	**14.4**	**(1.4)**
Gross NPA (%)	**2.0**	**2.0**	**(0.0)**	**1.9**	**0.1**
Net NPA (%)	**1.1**	**1.2**	**(0.0)**	**1.0**	**0.1**

Source: Company, India Infoline Research

January 14, 2016

Result Update

Strong NII growth backed by continued traction in advances book

The NII growth for DCB came in at robust 32% yoy to Rs. 160cr v/s our expectation of Rs. 163cr. The NII growth was backed by an expected increase in advances book, which grew 24% yoy as well as a drop in the cost of funds. DCB has been consistently delivering 20%+ advances growth and is on track to achieve its target of doubling balance sheet size over the next three years. Other income de-grew by 2% yoy and stood at Rs. 47cr. De-growth in other income was mainly on account of treasury gains worth Rs. 8cr that was present in Q3 FY15 due to favorable yield movement. No treasury gains were booked in this quarter. Core fee income grew by a decent 17% yoy to Rs. 36cr. Operating expenses growth was elevated at 22% yoy as DCB added 16 branches this quarter, in line with its revised strategy of adding 150 branches over the next 24 months. DCB reported a PAT decline of 5% yoy as it has been paying tax at the normalized tax rate since the start of this financial year.

Advances growth continues to be healthy; share of corporate banking has reduced

The advances book has grown at a healthy pace of 24% yoy led by strong traction in Retail and Agri & Inclusive Banking (AIB) segments which grew 34% and 62% yoy respectively. On the other hand, we have seen a consistent drop in the share of corporate loans over the past five quarters. The share of corporate loans has fallen from 24% to 17% over this period due to the switching of loans from DCB to other banks which are offering rates about 150bps lower than what DCB offers. DCB is unable to match the lower rates due to its higher cost structure. We estimate DCB's overall advances book to grow at a CAGR of 25% over FY15-18 led by a lower base and fast expanding distribution network.

The revised branch addition strategy will spread out costs and put less pressure on C/I ratio

DCB revised the time frame for its 150 branches addition strategy to 24 months from 12-15 months. This, we believe is a more prudent approach as it will spread out costs over FY17 and FY18 as against the upfronting of costs earlier. It has added 16 branches in this quarter and will add another 15-20 branches in Q4 FY16 to take its total tally to ~195 branches by FY16 end. We have lowered our operating expenses estimates for FY17 and increased those for FY18 to reflect the change in strategy. C/I ratio is estimated to increase to 67% now in FY17 as against our earlier estimate of 75% and will marginally ease to 66% in FY18.

Asset quality remains stable

Asset quality was stable with GNPA ratio (2% of gross advances) at similar levels as those of Q2 FY16 and Net NPA ratio dropping 10bps sequentially to 1.1% of net advances. Slippages were on expected lines at Rs. 55cr (1.9% annualized) and there are no major negative surprises in the foreseeable future as per the management. There was no sale to ARC and no restructuring done in this quarter. The O/S restructured book stands at just Rs. 46cr (0.4% of advances).

NIMs rise sharply in Q3 FY16; expect NIMs to correct over the medium term

NIMs in this quarter rose 17bps qoq and 26bps yoy to an impressive 3.96%. The sequential rise in NIMs was due to the drop in the share of the lower yielding corporate advances (20% to 17% of total advances) as well as a marginal uptick in the Credit Deposit ratio (82% to 83%). We believe that NIMs have peaked out and should move lower from here on due to a) reduction of the base rate by 15bps on 15th Dec b) impact of the new base rate norms announced by RBI which could push NIMs lower by about 20bps c) slower pace of reduction in cost of funds as compared to the portfolio yield and d) increased competition in the LAP space which could drive loan yields downwards. We expect NIMs to drop by 40-50bps by FY18 from present levels.

Valuation captures the impact of new strategy; upgrade rating to Accumulate

RoAs which stood at 1.3% in FY15 have come off to just 1% in Q3 FY16 as the bank has shifted to normal tax rate. We expect RoAs to stand at 1% in FY16 and drop to 0.7% in FY17 and FY18 due to the aggressive branch and employee addition. Steep fall in the stock price has lowered valuation at 1.2x FY18 P/Adj. BV which fully factors the subdued RoA delivery and hence it is unlikely to witness any incremental de-rating in the near term. We believe that investments planned during FY16-18 would start yielding healthy results thereby uplifting the return ratios post FY18. Given valuation comfort and strong execution track record of the management, we upgrade our rating from Reduce to Accumulate and 12-month target price to Rs. 88.

Financial summary

Y/e 31 Mar (Rs cr)	FY15	FY16E	FY17E	FY18E
Total operating income	675	819	958	1,179
yoy growth (%)	33.2	21.3	17.0	23.1
Operating profit (pre-provisions)	279	343	318	400
Net profit	193	181	158	205
yoy growth (%)	27.6	(6.2)	(12.9)	29.9
EPS (Rs)	6.8	6.4	5.6	7.3
Adj.BVPS (Rs)	50.6	55.5	60.6	67.5
P/E (x)	11.5	12.3	14.1	10.8
P/BV (x)	1.6	1.4	1.3	1.2
ROE (%)	14.6	11.1	8.8	10.4
ROA (%)	1.3	1.0	0.7	0.7
CAR (%)	15.0	13.9	12.7	12.1

Source: Company, India Infoline Research

'Best Broker of the Year' – by Zee Business for contribution to broking

Nirmal Jain, Chairman, IIFL, received the award for The Best Broker of the Year (for contribution to broking in India) at India's Best Market Analyst Awards 2014 organised by the Zee Business in Mumbai. The award was presented by the guest of Honour Amit Shah, president of the Bharatiya Janata Party and Piyush Goel, Minister of state with independent charge for power, coal new and renewable energy.

Recommendation parameters for fundamental reports:

Buy – Absolute return of over +15%

Accumulate – Absolute return between 0% to +15%

Reduce – Absolute return between 0% to -10%

Sell – Absolute return below -10%

Call Failure - In case of a Buy report, if the stock falls 20% below the recommended price on a closing basis, unless otherwise specified by the analyst; or, in case of a Sell report, if the stock rises 20% above the recommended price on a closing basis, unless otherwise specified by the analyst

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